ANNUAL REPORT 2003

LEADERSHIP & *Innovation*

CREDIT UNION CENTRAL *of* MANITOBA

MANITOBA'S

CREDIT UNIONS

District 1

Steinbach CREDIT UNION

District 2

Assiniboine CREDIT UNION

District 3

Cambrian CREDIT UNION

District 4

Alliance CREDIT UNION · Belgian CREDIT UNION · Buffalo CREDIT UNION · Civic CREDIT UNION · Entegra CREDIT UNION
Me-Dian CREDIT UNION · North Winnipeg CREDIT UNION · Transcona CREDIT UNION · Winnipeg Police CREDIT UNION

District 5

Astra CREDIT UNION · Carpathia CREDIT UNION · Crosstown CREDIT UNION · Vantis CREDIT UNION

District 6

Arborg CREDIT UNION · Dauphin Plains CREDIT UNION · Eriksdale CREDIT UNION · Ethelbert CREDIT UNION
Flin Flon CREDIT UNION · Gimli CREDIT UNION · Grandview CREDIT UNION · Riverton CREDIT UNION
Roblin CREDIT UNION · Rorketon & District CREDIT UNION · Ste. Rose CREDIT UNION · Swan Valley CREDIT UNION

District 7

Amaranth CREDIT UNION · Austin CREDIT UNION · Beautiful Plains CREDIT UNION · Crocus CREDIT UNION
Cypress River CREDIT UNION · Erickson CREDIT UNION · Hartney CREDIT UNION · Minnedosa CREDIT UNION
Portage CREDIT UNION · Sandy Lake CREDIT UNION · Strathclair CREDIT UNION · Tiger Hills CREDIT UNION
Turtle Mountain CREDIT UNION · Virden CREDIT UNION

District 8

Agassiz CREDIT UNION · Altona CREDIT UNION · Community CREDIT UNION · Dufferin CREDIT UNION
La Salle CREDIT UNION · Lowe Farm CREDIT UNION · Niverville CREDIT UNION · Oak Bank CREDIT UNION
Rosenort CREDIT UNION · Sanford CREDIT UNION · Starbuck CREDIT UNION

District 9

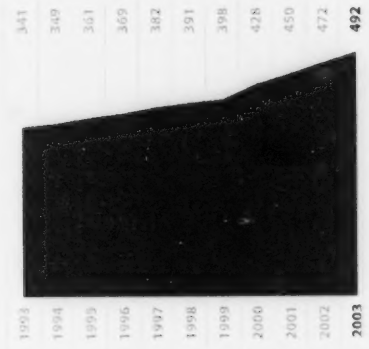
Heartland CREDIT UNION · South Interlake CREDIT UNION · Vanguard CREDIT UNION · Westoba CREDIT UNION

In January 28, 2003, two former caisses populaires — Ste. Rose and La Salle — were welcomed into the Manitoba credit union system.

On November 1, Safeway and Civic credit unions amalgamated; the amalgamated entity retained the name Civic Credit Union.

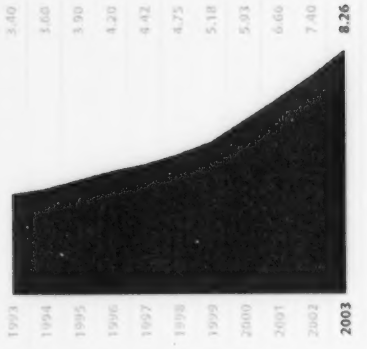
Holy Sprit Credit Union became Entegra Credit Union when members endorsed the change in November.

Memberships (thousands)



By the end of 2003, the number of memberships in Manitoba's credit unions had increase by approximately twenty thousand, ending the year at 492,000. The growth in membership is not surprising when one considers that 97% of members are 'satisfied' or 'very satisfied' with their credit union and that they're nearly twice as likely as bank customers to refer friends and family to their financial institution. (*Source:* CUCM Market Research, January 2003)

System Assets (billions of dollars)



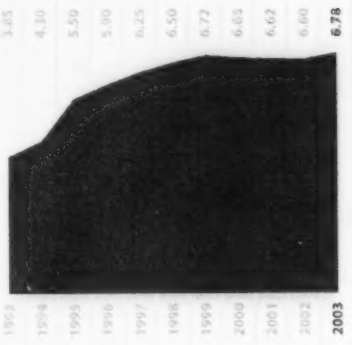
Total credit union assets grew by $860 million over the course of 2003, including $45 million injected by the two caisses populaires, to end the year at $8,262,479,900. Just 13 months after reaching $7 billion, credit union assets reached $8 billion in July. Perhaps more impressive, in the five years since 1998, Manitoba credit union assets have grown by 75%.

Manitoba credit unions

serve more than 100 communities throughout the province, giving Manitobans substantially better access to quality financial services and products than any other financial institution.

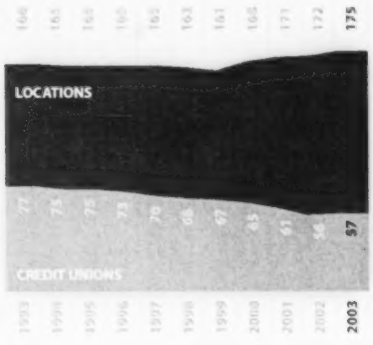
Altona • Amaranth • Angusville • Arborg • Ashern • Austin • Baldur • Beausejour • Belmont • Benito • Birds Hill • Binscarth • Birtle Boissevain • Brandon • Bruxelles • Carberry • Carman • Cartwright • Cypress River • Dauphin • Deloraine • Dominion City • Emerson Erickson • Eriksdale • Ethelbert • Flin Flon • Foxwarren • Fisher Branch • Gimli • Gilbert Plains • Gillam • Gladstone • Glenboro • Glenella Grandview • Gretna • Grunthal • Hamiota • Hartney • Headingley • Holland • Inglis • Inwood • Kenton • Killarney • Lac du Bonnet Landmark • La Riviere • La Salle • Lowe Farm • MacGregor • Manitou • Mariapolis • McAuley • Melita • Miami • Miniota • Minitonas Minnedosa • Minto • Moosehorn • Morden • Morris • Neepawa • Ninette • Niverville • Oak Bank • Oak Bluff • Oak Lake • Oak River Oakburn • Oakville • Pilot Mound • Pinawa • Pine Falls • Pine River • Plum Coulee • Plumas • Portage la Prairie • Reston • Rivers • Riverton Roblin • Rorketon • Rosenort • Rossburn • Russell • St. Lazare • Ste. Rose du Lac • Sandy Lake • Sanford • Selkirk • Shoal Lake • Souris Sprague • Starbuck • Steinbach • Stonewall • Strathclair • Swan Lake • Swan River • Teulon • The Pas • Thompson • Treherne • Virden • Vita Waskada • Whitemouth • Winkler • Winnipeg • Winnipeg Beach • Winnipegosis

System Equity (as a percentage of assets)



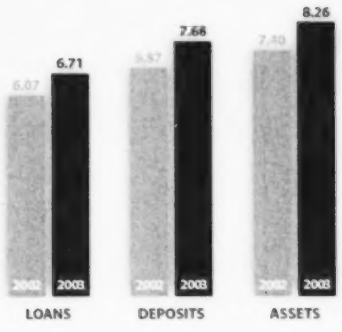
Combined system equity of $560 million includes $486.5 million in credit union equity, as well as the equity of Credit Union Central of Manitoba and the Credit Union Deposit Guarantee Corporation. Seventy million dollars, a significant amount, were added to system equity in 2003. Equity and equity as a percentage of assets are key measures of the strength of the Manitoba credit union system.

Number of Credit Unions & Locations



There was one credit union amalgamation in 2003, between Civic and Safeway credit unions, which reduced the number of credit unions by one. Ste. Rose and La Salle added two credit unions and two branches to the system. The third new branch was Steinbach Credit Union's Linden Ridge location in south Winnipeg. In addition to providing Manitobans with better access to credit union services, the equivalent of 86 full-time jobs was added to the economy.

Loans, Deposits, Assets (billions of dollars)



Comparing year-end 2003 to year-end 2002, credit union assets increased $860 million, deposits increased $810 million and total loans grew by $640 million. With the two former caisses included in both years' figures, lending activity increased by 9.94%, deposits by 11.06% and assets increased by 10.98%. In an industry as competitive as retail and commercial financial services, these figures speak to the strength and vitality of Manitoba's 57 credit unions.

All figures preliminary unaudited results

Vision

CUCM will serve Manitoba's credit unions by providing leadership and ensuring the delivery of high value products and services that help them achieve their vision.

Mission

CUCM exists to:

- Help Manitoba's credit unions meet their business needs
- Assist Manitoba credit unions in providing services to their members
- Provide trade association services for Manitoba's credit unions
- Promote co-operative principles

Values

Respect for people

- All individuals are highly valued and are treated equitably.

Integrity

- We will be reliable in our word, honouring commitments and promises.

Excellence

- In all we do, we are committed to the highest standards of performance, competence, and efficiency.

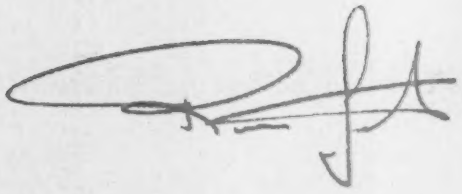
Service

- We work to serve Manitoba credit unions and their members.
- We steward the assets and affairs of the corporation for the benefit of the Manitoba credit unions.

MESSAGE FROM THE

Chairman

As their needs evolve,
credit unions will continue to
set the bar higher
for CUCM



Credit Union Central of Manitoba continued on an ambitious journey,

in 2003, that builds upon its strengths and accomplishments. CUCM has long been a place where the common goals of Manitoba's credit unions converge, where the system weighs all sides of issues and reaches decisions that are aimed at strengthening the credit union system as a whole.

Building strong relationships with, and between, credit unions remains the cornerstone of CUCM.

At the same time, CUCM continues to redefine its roles and the ways it provides products and services to credit unions. It is a cultural change that spans the entire company. The board, through senior management, is constantly challenging CUCM at all levels to adopt the high standards of the organization and to be fully open to new developments in the continual evolution of CUCM as Manitoba credit unions' trade association and service provider.

The board of directors is committed to CUCM's vision — and recognizes that it is no simple task to provide a continuity of service to credit unions while also, continually, working toward the company's renewal and its future business model. I am very proud of the efforts made at the board and senior management level, in 2003, as CUCM implemented strategies that address fundamental change: launching Celero; implementing a change management process; beginning an organizational review and succession plan; and focusing its planning on the future needs of credit unions and their members.

Change and leadership, as described in CUCM's vision, is a continual process. As their needs evolve, credit unions will continue to set the bar higher for CUCM, whose goal is to continue to reach and surpass the bar.

The system continues to pass important milestones in areas of growth and innovation. Credit unions' individual achievements contribute to our collective accomplishment and inspire all of us to reach for new opportunities. The synergy of the system's past and future is encouraging and energizing.

Knowing that the board and senior management will continue to work together along their current path, I am optimistic and confident about the future of CUCM and the Manitoba credit union system.

I would like to take this opportunity to thank my fellow board members and the management and staff of CUCM and Celero for their efforts and dedication over the past year.

RUSSELL FAST
Chairman, Board of Directors

Russell Fast CHAIRMAN

Russ Fast, an independent businessman from Steinbach, has served on the board of Steinbach Credit Union since 1996. He has represented this single-credit union district on Central's board since 1998 and served as chairman of the board since April 2001. He formerly served on Central's Audit and Conduct Review committees and represented the board on the Credit Union Bonding Committee. He currently represents Central on the CUMIS Group board.

- *Level IV System Credit Committee*
- *Executive Committee*

Alexander (Sandy) Wallace FIRST VICE-CHAIR

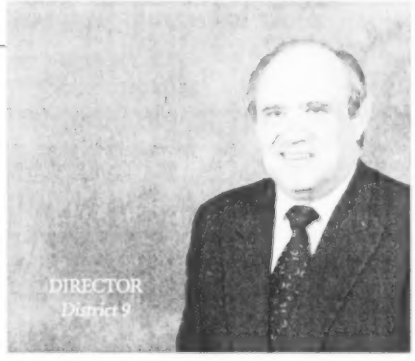
A Manitoba Hydro Key Account Officer and farmer, Sandy Wallace has served on the board of Niverville Credit Union since 1994. He was elected to Central's board in March 2001 and appointed First Vice-Chair in 2003. He has served on Central's Audit and Conduct Review committees and was a member of the ad hoc voting entitlement review committee. He is one of two Central board representatives on The Co-operators Regional Committee.

- *Level IV System Credit Committee*
- *Executive Committee*

Wayne McLeod SECOND VICE-CHAIR

A Central board member since 1984, Wayne McLeod has been CEO of Brandon-based Westoba Credit Union since 1970. He currently represents Manitoba credit unions on The Cooperators board and is on the board of Co-op Trust. In the summer of 2003, Mr. McLeod was appointed chairman of the Co-operative Development Foundation, the arm of the Canadian Co-operative Association (CCA, on whose executive he also sits) devoted to national and international co-operative development.

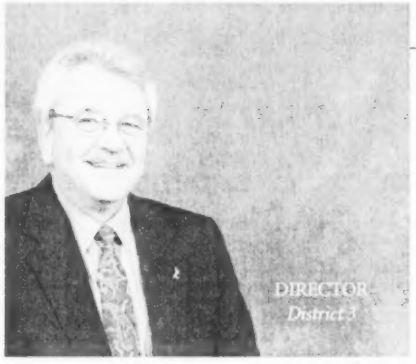
- *Executive Committee*



Al Morin

Al Morin, CEO of Assiniboine Credit Union, has represented this single-credit union district since 1998. He is a member of the Management Advisory and Manitoba Technology Advisory committees, represents Central on the Co-operative Trust board and Manitoba credit unions on the board of Ethical Funds. He also serves on the Crocus Fund advisory council and the board of Red River Community College.

- *Audit Committee*
- *Conduct Review Committee*
- *Investment Committee*



Frank Anthony Pisa

Frank Pisa, who spent the bulk of his career with Manitoba Finance, is executive director of the Manitoba Speech & Hearing Association. He has served on the board of Cambrian Credit Union for 19 years, on its credit committee for 17. He represents Central on the Manitoba Cooperative Council Distinguished Co-operator Selection Committee, is a member of the Presidents' Forum Planning Committee and served as First Vice-Chair of Central's board from 2001 to 2003.

- *Investment Committee*
- *Chair, Level IV System Credit Committee*

Dave Abel

Dave Abel, a retired Manitoba Hydro operating centre superintendent originally from Minnedosa, has served on the board of Transcona Credit Union since 1985, the last eight years as President. He was elected to the Central board in 2003. In addition to his board committee work, he is a past chair of the provincial Presidents' Forum Planning Committee and, prior to his election to Central's board, served on the Human Resources Advisory Committee.

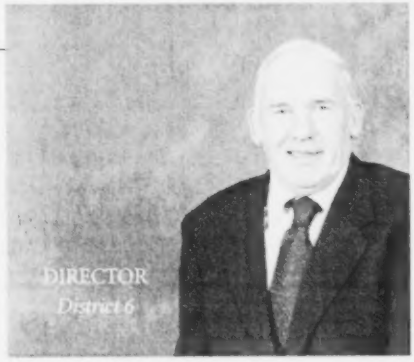
- *Audit Committee*
- *Conduct Review Committee*
- *Level IV System Credit Committee*

Glenn Karr

Glenn Karr, an independent businessman elected to Central's board in 2001, has served on the board of Astra Credit Union since 1998. In addition to his board and committee work, Mr. Karr represented Credit Union Central on the Credit Union Bonding Committee and served as a member of the ad hoc voting entitlement review committee.

- *Level IV System Credit Committee*
- *Chair, Investment Committee*

Alex J. Eggie



A farmer from Big Woody, Manitoba, Mr. Eggie was elected to Central's board in 2000. He has been a board member of Swan Valley Credit Union since 1988 and its president for nine years. He has served on the board of the Manitoba Credit Union Presidents' Forum planning committee, is an alternative member of Level IV System Credit Committee and chaired the ad hoc committee appointed to review voting entitlement.

- *Chair, Audit Committee*
- *Chair, Conduct Review Committee*
- *Chair, Bylaws and Resolutions Committee*
- *Investment Committee*

Norval Lee

Norval Lee, a farmer from the Erickson area, has been a member of the board of Erickson Credit Union since 1987 and its president since 1991. He was elected to the Central board in March 2001. Mr. Lee is an alternate on the Level IV System Credit Committee, one of two board representatives on The Co-operators Regional Committee and Central's representative on the Wasagaming Foundation board.

- *Audit Committee*
- *Conduct Review Committee*

Garth Manness

President and
Chief Executive Officer

Mike Safiniuk TREASURER

Division Manager, Finance/Administration

- *Banking & Payment Services*
- *Treasury Services*
- *Controller*

Dale Ward CORPORATE SECRETARY

Division Manager,
Research, Communications & Marketing

- *Research, Communications & Marketing*
- *Operations Manuals*
- *Printing & Supply*

Brian Peto

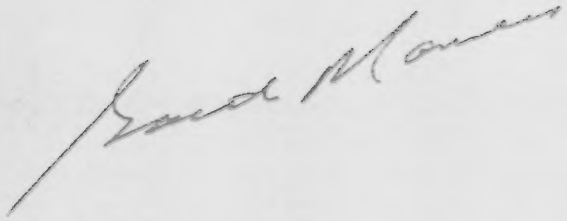
Division Manager,
Human Resources & Consulting

- *Human Resources*
- *Business Consulting*

MESSAGE FROM THE PRESIDENT AND *Chief Executive Officer*

As articulated in our vision statement,

Credit Union Central of Manitoba (CUCM) exists to serve Manitoba's credit unions by providing leadership and ensuring the delivery of high-value products and services that help them achieve their vision. In 2003, CUCM's efforts were dedicated to reaching this goal.



Creating Value with Partners

Formally launched in 2003, Celero Solutions was created to bring added value, through economies of scale, to the provision of information technology (I/T) services to credit unions. As a shareholder, CUCM's interest is to see that Celero accomplishes two things for Manitoba credit unions: provides them with the products, services and support they require in order to effectively serve their members; and delivers on its proposition to add value.

The first example of the company's proposition to add value was the creation of the Everlink proposal in 2003. Celero and NYCE Corporation of New Jersey created Everlink and successfully bid on a proposal to provide POS and ATM switching services to the national credit union system. With Everlink bringing together large volumes of transactions, Manitoba credit unions will realize significantly lower electronic transaction costs.

Celero contracts the support services it requires from its owner-partners. From a business perspective, the primary impacts on CUCM will be Celero's decisions to designate CUCM as the lead provider of human resources services and Credit Union Central of Alberta as the lead provider of accounting support; CUCM will need to adjust to changes in revenue and workflow resulting from those decisions.

In other developments on the partnership front, CUSOURCE began delivering training and education services to credit unions in 2003. This national partnership replaces the training and education programs previously offered by the nation's provincial centrals.

In the area of wealth management services, Credential and its owners merged that company's distribution arms (Credential Asset Management and Credential Securities) with that of CUMIS (MemberCARE Financial Services) to create a single, system-owned wealth management services distribution company, Credential Financial Inc.

Work will continue, in 2004, in determining the value of CUCM becoming a partner in Credit Union Payment Services (CUPS), a joint venture payments utility owned by the Saskatchewan and Alberta centrals.

Through these and other partnerships and alliances, CUCM will continue to look at ways to deliver added value to its member credit unions.

Planning for the Future

CUCM 's future state business model — how CUCM will deliver to credit unions the best services in the most efficient means possible, whether through partnerships, alliances, joint ventures, by keeping services in-house or other means that may present themselves — supports our vision. The move from the primary provider of services to one where CUCM also acts as a service delivery agent is an evolutionary process; each step along the way requires thorough knowledge of the financial services industry and the services credit unions need to serve a growing membership base.

It also requires planning — as far as 10 years out. CUCM's semiannual provincial research, published in the spring and fall environmental scans, provides CUCM and credit unions with a context in which to formulate plans. Full and early communication with credit unions, our owners and customers — which often occurs at special system-wide meetings — is also crucial to the success of major initiatives. One of the many items CUCM consulted credit unions on, in 2003, was the plan for a new location to better serve the needs of CUCM and Celero.

Building for the Future

In late 2005, CUCM's current lease will expire. Over the course of 28 years, CUCM — Banking & Payment Services and I/T, in particular — has outgrown the facility at 215 Garry Street. Working with external design and real estate consultants and fully investigating and comparing the costs and benefits of all potential solutions, CUCM analyzed a number of alternatives and moved toward the finalization of a decision to meet its future occupancy requirements.

In early 2004, CUCM announced that a new built-to-lease CUCM-Celero facility will be in place at 317 Donald Street, in downtown Winnipeg, by the end of 2005.

The Year for Manitoba's Credit Unions

Financially, credit unions had an outstanding year, growing in all areas as they continued to increase market share. Assets and deposits grew by approximately 11 per cent year-over-year, one per cent higher than loan growth. Net income was $61.4 million, an outstanding increase of 28.5 per cent over 2002 and yet another record for Manitoba's credit unions. This level of

profitability was particularly remarkable given the compressed spreads caused by record-low interest rates.

The excellent year enjoyed by Manitoba credit unions was tempered, however, by negative economic developments that are not predicted to improve in the near future.

Crises in the nation's agricultural sector and the rising value of the loonie had, and will continue to have, an effect on farmers, ranchers, businesses and individuals throughout the province. The BSE situation, which began in May and has yet to be resolved, is having a severe impact on Manitoba cattle producers; concerns that surfaced in 2003 about the drug Premarin will eradicate much of the market for Manitoba PMU producers; and the rising value of the Canadian dollar is presenting new challenges for Manitoba hog farmers, with industry officials saying only the fittest producers — those with the lowest production costs — will survive.

On a much brighter note, CUCM and Manitoba credit unions were pleased to welcome two new credit unions — the former caisses populaires of La Salle and Ste. Rose du Lac — into the Manitoba system in February 2003. Through the conversion process and 11 months of serving their needs, it has been CUCM's pleasure to work with the boards and management teams of La Salle and Ste. Rose credit unions.

Working for the Success of Manitoba's Credit Unions

In this, the inaugural year of the Manitoba Credit Unions Order of Merit awards, the system will recognize the efforts of individuals who, throughout the 65-year history of credit unions in Manitoba, have dedicated themselves to credit union development, exemplified the concept of people helping people and contributed in other ways to their communities. Credit Union Central of Manitoba salutes these credit union pioneers.

I'd like to take this opportunity to thank Russ Fast and the other CUCM board members for their leadership and direction over the past year. With Russ' leadership, the board challenges management to think ahead and be responsive to credit union needs. We are a better organization because of his, and their, leadership.

GARTH MANNESS

President and Chief Executive Officer

Managing CUCM to Optimize Value

CUCM's Business Goals

- Be financially responsible.
- Provide the best value service offerings that enable credit unions to meet their business goals.
- Have an appropriately sized, engaged, adaptable workforce with the breadth and depth needed to fulfill our vision.
- Continually improve CUCM.
- Represent the interests of Manitoba's credit unions at the provincial and national levels.
- Promote and facilitate closer working relationships among credit unions to achieve a common vision.

Competition from new and existing financial and non-financial service providers is increasing.

Regulations, established to protect consumers' interests and the integrity of the nation's banking system, are becoming more numerous and complex. The technology required to meet operational and customer needs continues to evolve. Consumers are becoming more sophisticated in their product knowledge and less hesitant to move their business. Add to these internal and external pressures the fact that interest rates and deposit/lending margins continue to hover at historical lows and one gets a clear picture of the competitive environment in which credit unions currently operate.

As the trade association and service provider for Manitoba's 57 credit unions, Credit Union Central of Manitoba (CUCM) must do all it can to alleviate, rather than add to, the pressures credit unions face. In 2002, CUCM developed a future state business model that conceptualizes the direct and indirect provision of services to credit unions and, in 2003, spent a great deal of time and effort putting the processes in place that will eventually lead to achieving it.

A Change Management Team was established in 2003 to set the strategic direction of CUCM's overall change plan. It will initially focus on three main areas — managing the impacts of I/T leaving CUCM, improving and articulating key company processes and achieving the future state business model.

The team articulated a number of guiding principles that will filter decisions as CUCM moves toward its future state business model and reinforced that CUCM needs to: live its mission; achieve its vision; and deliver its value proposition, "High Quality, Superior Service, Competitive Pricing," which applies to the provision of the products and services credit unions need to effectively deliver services to their members. It also established principles that will filter decisions resulting from planned change:

- Change will be the number one company priority;
- Personnel will be provided with the appropriate tools to undertake change;
- The process will align to corporate values, adhere to personnel policies and be supported by individual commitment and participation; and
- Communications will be open and forthright.

In 2003, work also began on the Assessed Activities Project, the purpose of which is to ensure value to credit unions for activities funded by the trade, research & development and liquidity management assessments. The scope of this project, which builds on the output of the Trade Association Working Group (2000) and will include the solicitation of system feedback, is to recommend four things to CUCM's board:

- Guiding principles for determining which activities should be funded by assessments;
- The resolution of any anomalies identified through an evaluation of current assessed activities against these guiding principles;
- Benchmarks for monitoring the cost of assessed activities; and
- Ways to streamline the assessment process.

Human Resources contributed to the change management process by completing the implementation of a human resource software package, in 2003, that features job evaluation and performance management tools. The software assists in the evaluation of staff against the key competencies of their positions and reports on their competency ratings. Managers then work with employees to develop training plans to bridge the gaps between key competencies and performance.

CUCM also began a review of its current organization and will make recommendations in 2004 on a structure that has the flexibility to meet CUCM's future state business model while continuing to effectively deliver services today. The review will define and identify key positions, confirm the key leadership and technical competencies required for key positions, identify competency gaps for key positions and lead to the development of a succession plan for key positions.

In addition to these and other formal processes related to delivering value to credit unions and planning for the future, in 2003, CUCM proceeded with the implementation of a number of changes and process improvements designed to better serve the current needs of credit unions.

Improving Processes with Technology

The migration of all payment processing functions — including Canadian and U.S. cheque deposits, clearings and paper-based bill payments — to Central's new **cheque imaging** platform was completed in July 2003. In terms of its impact on operations and the work effort required, the migration to cheque imaging was the most significant undertaking for Banking

and Payment Services since cheque processing was brought in-house to CUCM from the Bank of Nova Scotia in 1991. The project included the development of a centralized bulk cheque filing facility where credit unions now initiate cheque returns online, thereby eliminating the dependency on the courier system. This provides a secure, efficient means of returning items. Member service has been enhanced by providing credit unions with real time access to images of cleared cheques, allowing them to respond immediately to member inquiries. Instead of the original items, printed images of cleared cheques are provided to members with their statements, which eliminates the daily need for credit unions to file clearing items. In early 2004, credit unions will be able to provide access to cleared cheques directly to members through their online banking products. Credit unions can also offer corporate members searchable CD-ROMs with images of all their cheques. CUCM's experience with cheque imaging has positioned it for participation in an industry-wide project under the direction of the Canadian Payments Association (CPA), which, in mid-2003, mandated the exchange of cheque images between all Canadian clearing institutions by the fall of 2006. Credit union response to cheque imaging has been very positive; it scored 3.83 out of 5 in overall satisfaction on CUCM's annual customer satisfaction survey.

THE CPA HAS MANDATED THE EXCHANGE OF CHEQUE IMAGES BETWEEN ALL CANADIAN CLEARING INSTITUTIONS BY THE FALL OF 2006

Leveraging from the experience gained in the imaging project, an **online AFT return system** was developed, tested and successfully piloted in 2003, with implementation for all credit unions scheduled for 2004. This new service will eliminate the reliance on the courier system, reduce the risk of human error and provide for the easy return of debit and credit transactions while reducing the workload at branches and CUCM.

Changes that resulted from the 2002 tendering of the system's **cash parcel business** were implemented in 2003. The contract was awarded to the existing provider, Intria Items, for an additional five-year term. Changes were made to the fee structures and operational procedures, which are linked to the achievement of performance targets by both Intria and credit union branches. Systems to monitor and report performance were also implemented so that action can be taken to reduce errors that directly or indirectly impact cash quality, thereby helping to maintain low cash parcel fees for credit unions.

Revised procedures and service level standards for **tracing and ATM settlement adjustments** were also developed in 2003, and CUCM met or exceeded the revised standards for responses to tracing enquiries 100 per cent of the time since implementation in early 2003.

Procedures for most Banking & Payment Services products and services were added to the E-Manuals site in 2003, with the rest to come in 2004. This provides credit unions with an up-to-date, **searchable reference tool** for banking and payment services.

Representing credit unions' statutory and excess liquidity deposits, CUCM's investment portfolio has tripled in the past 10 years to over $1 billion. During that same time, the complexity of investments has escalated, as evidenced by the extensive use of derivatives. The objectives of the **Liquidity Pool Safe-keeping and Administrative Services Project (LP Project)** — a joint effort of Treasury Services and the Controller's Department — will be achieved by sourcing updated LP management tools that reduce operating inefficiencies and risk while maximizing the value provided to credit unions on the investment service. The project will continue into 2004.

CUCM'S INVESTMENT PORTFOLIO HAS TRIPLED IN THE LAST 10 YEARS TO OVER $1 BILLION

Building on the introduction by Lending Services, in early 2002, of the more objective and transparent balanced scorecard method of setting credit unions' **discretionary lending limits (DLLs)**, CUCM made further enhancements to the process, based on feedback from credit unions, that will give credit unions the ability to achieve higher limits.

With the retirement of its manager in late 2003, the **Manuals** function was restructured to utilize resources more efficiently and reduce program costs. By the end of the year, over 90 per cent of manuals content had been converted to the Web-based electronic format. Manuals updates and Information Circulars were also converted to electronic formats and added to CUCM's electronic notification process. In addition to the manuals enhancements, **Communications** also managed the establishment of InfoCentral for CUCM and Celero staff, presented a draft electronic meeting package to the board and, late in the year, began the process of surveying CUCM's delegate body with the aim of achieving the goal of migrating all system communications to electronic platforms. A new search engine will be in place in 2004 that will improve content searching capabilities on the E-Manuals, cuCommunity and InfoCentral sites.

Taking the Lead on Regulatory & Compliance Issues

CUCM has traditionally taken a lead role on matters concerning compliance with the laws and regulations governing Manitoba credit unions. CUCM took a leadership role on **privacy legislation**, for example, which came into effect for credit unions on January 1, 2004. (This legislation came into effect for CUCM a year earlier.) CUCM also dealt with a number of other, new compliance matters of its own in 2003.

CUCM's federal regulator, the Office of the Superintendent of Financial Institutions (OSFI), required that a policy and supporting procedures be in place for entities it regulates that may outsource material business functions to third parties. In 2003, CUCM developed its policy and posted supporting procedures to ensure it reports, monitors and performs outsourcing

due diligence. Responding to another OSFI recommendation, CUCM developed a legislative compliance framework that includes a compliance policy and mandate for a Chief Compliance Officer. CUCM also acted on an OSFI recommendation that an **Asset/Liability Committee** — composed of the CEO, Treasurer, Controller, and the director and manager of Treasury Services — be set up.

Treasury Services also dealt with changes, introduced in late 2003 by the Canadian Institute of Chartered Accountants (CICA), that require businesses to report derivatives at their market value. For corporations such as CUCM that use derivatives as hedges against interest rate fluctuations, the rule would distort income because non-derivative assets and liabilities would continue to be reported at book value. To address this problem, CICA allowed businesses, under very strict conditions, to continue to report derivatives at book value, and set out rigorous requirements — collectively known as ACG-13 or **Hedge Accounting** — for those wishing to do so. After an effort that required extensive documentation, CUCM's Treasury Services and Controller successfully completed CUCM's application by the December 31 deadline.

Other Initiatives

In addition to work undertaken on corporate issues including Celero, CUSOURCE, pension legislation, privacy, CUCM's core competencies, organizational review and performance management, Human Resources & Consulting also administered and distributed the 2003 **Western Canadian Credit Union Salary Survey** and the first **Directors' Remuneration Survey** for the Manitoba credit union system. The department also provided management support to the **Manitoba Cooperative Council** and participated with Credit Union Central of Saskatchewan in the delivery of **human resource and loan consulting services** in both Manitoba and Saskatchewan.

After two years of review and system consultation, at the AGM in 2003, delegates approved the adoption of a **mandatory cost-based voting methodology** as a fair and equitable basis for participation in Central's democratic process. Under this method, voting entitlement is established by a credit union's share of mandatory costs as opposed to the former blended membership/asset ratio.

A proposed **Code of Conduct**, based on a model adopted by Credit Union Central of Saskatchewan, was developed in 2003. Once approved by the board, it will guide directors, management, staff and delegates as they perform their duties as representatives of CUCM.

In addition to its normal practice of meeting with elected and appointed officials as part of its **government relations** activities, in 2003 CUCM communicated and met with the government on a number of specific topics of concern to Manitoba credit unions.

- CUCM's efforts were rewarded, in November 2003, with the confirmation that credit unions will be included as fully eligible financial institutions to handle entitlement funds for future Federal Treaty Land Entitlement agreements.
- In 2003, CUCM published a submission to the Manitoba Pension Commission on required changes to pension legislation in Manitoba and met with elected and appointed government officials to advocate change. In addition to communications and public relations efforts currently underway with a number of partners, CUCM will make another submission to the Manitoba Pension Commission by March 31, 2004.

CUCM CONTINUED TO ADVOCATE FOR POLICY CHANGES THAT WOULD LEVEL THE PLAYING FIELD WITH THE INSURANCE INDUSTRY.

- In addition to banking and short-term financing, CUCM also provided consulting services on training, policy development and overall management support to the Manitoba Student Financial Assistance Program.
- CUCM worked with a group of credit unions to develop a number of alternative methods of entering the non-lending retail insurance field under existing rules and continued to advocate for policy changes with the government that would level the playing field with the insurance industry.
- CUCM provided information about Farm Credit Canada (FCC) — its expanded mandate, in particular — that Credit Union Central of Canada raised before the House of Commons Standing Committee on Finance. In 2004, FCC will meet with Canadian system representatives to discuss relevant issues.
- CUCM worked with other centrals and financial institutions on the introduction of the new Canadian Agricultural Income Stabilization (CAIS) program and the wind-down of the old NISA program.
- In 2003, the Manitoba Agricultural Credit Corporation (MACC) introduced the new Operating Credit Guarantee program, which addresses virtually all of the issues credit unions had with the old Guaranteed Operating Line program.

Credit Unions, Members, Entire Communities Rally in Support of Manitoba Cattle Producers

The discovery of a single case of Bovine Spongiform Encephalopathy (BSE, or Mad Cow Disease) in one cow on a farm in Alberta last May led to the closure of the U.S. and other international borders to Canadian cattle and beef products. The ban on Canadian beef put an incredible strain on cattle producers across Canada, including those in Manitoba.

In a July letter to Manitoba credit unions and co-operatives, Vanguard Credit Union launched a fundraising campaign to support the Manitoba Cattle Producers Association (MCPA), which was leading the fight, provincially, against the embargo. CUCM and all 57 credit unions quickly came on side to help with the effort, and through August and September credit unions throughout the province accepted donations from their members. Many boards of directors also pledged the direct financial support of their credit unions.

In communities throughout the province, credit unions — often in conjunction with local co-operatives — organized fundraising events, with the proceeds earmarked for the MCPA. As word spread through communities, other businesses and community groups joined the efforts by volunteering, donating prizes, underwriting costs and, of course, raising funds within their own organizations. True to their reputation as being among the most charitable and concerned citizens in all of Canada, Manitobans throughout the province turned these fundraisers into community-wide events.

When it launched the campaign, Vanguard had hoped to raise ten or twenty thousand dollars to help the MCPA. At the end of the day — with donations continuing to roll in after the official end of the fundraising campaign — the system's efforts raised $87,650 for the association.

Credit unions throughout the province accepted donations from their members, raising close to **$90,000** for the Manitoba Cattle Producers Association

MANITOBA CREDIT UNIONS

Order of MERIT

The Manitoba Credit Unions Order of Merit

has been established to recognize individuals who — whether as employees or elected officials — have demonstrated a significant commitment to the Manitoba credit union system. Each year, up to three Manitobans will be selected to receive the award, based on their exemplary service to the Manitoba credit union system, the leadership they've shown in the preservation and extension of the philosophy of people helping people, and their commitment to the co-operative principles.

As part of the award, the recipient or a representative chosen by the recipient's family will receive a $500 scholarship to present to a student in a secondary or post-secondary educational institution of their choice.

For 2003, the inaugural year of the Order of Merit, three individuals were selected to receive the honour. Wasyl Topolnicky (posthumously) of Carpathia Credit Union, Henry F. Wiebe (posthumously) of Winkler (Heartland) Credit Union and Bill Halpenny of Astra Credit Union were chosen as the first inductees.

HENRY F. WIEBE

Nominated by Heartland Credit Union, Henry F. Wiebe was the long-time mayor of Winkler and served Winkler (Heartland) Credit Union for 35 years. During that time, he spent nine years as a director with Credit Union Central of Manitoba, four years as the president of CUCM and 11 years as a director and the chairman of the Stabilization Fund (now CUDGC). He also served as a director on the Credit Union League board, was a member of the Executive Committee of Credit Union Central of Canada's board, sat as a member of the Credit Union Executive Society and was the director of the Ethics Committee for the Executive Society. In his memory, Mr. Wiebe's family asked that the $500 scholarship be awarded to a student in the Music Therapy program at Canadian Mennonite University.

WASYL TOPOLNICKY

Nominated by Carpathia Credit Union, Wasyl Topolnicky served the Manitoba credit union system for 38 years. A native of Ukraine, Topolnicky came to Canada in 1926 and brought with him a deep interest in — and knowledge of — the co-operative movement. Shortly after his arrival, Topolnicky established Kalyna Co-operative, the first Ukrainian co-operative in Canada. From there, he moved on to establish the first Ukrainian credit union in Canada (Nova Hromada in Saskatchewan), and later helped to found Carpathia Credit Union in Manitoba. Topolnicky went on to help establish six other credit unions in Manitoba. In his memory, Carpathia's board of directors asked that the $500 scholarship be awarded to a student at the University of Manitoba's Centre for Ukrainian Canadian Studies.

WILLIAM HALPENNY

Nominated by Astra Credit Union, Bill Halpenny served the credit union system for 47 years, including five as Astra's general manager, from 1986 until his retirement in 1990. Following his retirement, Halpenny continued to serve the credit union system, sitting on the boards of both Astra and CUCM. He also sat on the boards of Credit Union Central of Canada, the Canadian Co-operative Association, the Manitoba Co-op Council and the CUMIS Group. For 10 years, Halpenny also served as first vice-president of the Winnipeg Chamber of Commerce and was a member of the Fort Garry Rotary Club for nine years. In 2001, he received the Manitoba Co-operative Council Distinguished Co-operator Award. Mr. Halpenny asked that the $500 scholarship go to a student from Fort Richmond Collegiate's 2004 graduating class who had performed community volunteer service work.

Management Report

CREDIT UNION CENTRAL *of* MANITOBA

The accompanying financial statements were prepared by Management, which is responsible for the integrity and objectivity of the data presented, including amounts that must necessarily be based on judgements and estimates. The financial statements were prepared in conformance with Canadian generally accepted accounting principles, and in situations where acceptable alternative accounting principles exist, Management selected the method that was thought to be most appropriate in the circumstances. Financial information appearing throughout this Annual Report is consistent with the financial statements.

In discharging its responsibilities for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, Management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

Ultimate responsibility for financial reporting to our members rests with the Board of Directors. The Audit Committee, which is appointed by the Board of Directors, meets at least twice a year to review, with Management and the appointed external auditors, the scope of the annual audit and the final audited financial statements.

The financial statements have been examined by PricewaterhouseCoopers LLP, whose report expresses their opinion with respect to the fairness of the presentation of the statements.

GARTH MANNESS
President and
Chief Executive Officer

MIKE SAFINIUK
Treasurer

Auditors' Report

PRICEWATERHOUSECOOPERS

To the Members of
Co-operative Credit Society of Manitoba Limited

We have audited the balance sheet of **Co-operative Credit Society of Manitoba Limited** as at December 31, 2003 and the statements of operations and reserves and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Society as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

CHARTERED ACCOUNTANTS

Winnipeg, Canada
January 30, 2004

Balance Sheet As at December 31, 2003

in thousands of dollars	2003	2002
Assets		
Liquidity pool (note 2)	1,179,164	1,011,311
Intermediation pool (note 3)	80,736	76,010
Service related (note 4)	8,449	12,275
	1,268,349	1,099,596
Liabilities		
Members' deposits	1,194,687	1,024,878
Accounts payable	5,208	5,629
	1,199,895	1,030,507
Members' Equity		
Share capital (note 5)	65,453	66,437
Reserves	3,001	2,652
	68,454	69,089
	1,268,349	1,099,596

Approved by the Board of Directors

Director Director

Statement of Operations and Reserves For the year ended December 31, 2003

in thousands of dollars	2003	2002
Financial revenue		
Liquidity pool	45,582	41,298
Intermediation pool	2,853	1,825
	48,435	43,123
Cost of funds	44,523	37,896
Financial margin	3,912	5,227
Income from Celero	709	—
Net (expense) recoveries from operations (note 6)	(156)	112
	553	112
Income before credit union patronage rebates	4,465	5,339
Credit union patronage rebates		
Financial margin	391	1,060
Distribution of income from Celero	709	—
On-line banking	—	505
	1,100	1,565
Income before income taxes	3,365	3,774
Provision for income taxes (note 7)	574	680
Net income for the year	2,791	3,094
Reserves – Beginning of year	2,652	2,126
	5,443	5,220
Dividends – net of related income tax savings of $540 (2002 – $567)	(2,442)	(2,568)
Reserves – End of year	3,001	2,652

Statement of Cash Flows For the year ended December 31, 2003

in thousands of dollars	2003	2002
Cash provided by (used in)		
Operating activities		
Net income for the year	2,791	3,094
Items not affecting cash		
Depreciation and amortization	746	1,359
Provision for income taxes	574	680
	4,111	5,133
Net change in receivables, prepaid expenses, inventories and accounts payable	708	3,414
	4,819	8,547
Investing activities		
Increase in liquidity pool securities maturing after three months	(189,895)	(59,288)
Increase in intermediation pool	(2,372)	(35,686)
Acquisition of capital assets – net of disposals	(437)	(3,222)
	(192,704)	(98,196)
Financing activities		
Increase (decrease) in members' deposits	169,809	(13,737)
Increase (decrease) in share capital (note 5)	(984)	8,900
Dividends	(2,982)	(3,135)
	165,843	(7,972)
Decrease in cash and cash equivalents	(22,042)	(97,621)
Cash and cash equivalents – Beginning of year	446,603	544,224
Cash and cash equivalents – End of year	424,561	446,603
Cash and cash equivalents consist of		
Cash	1,437	12,259
Liquidity pool securities maturing within three months	423,124	434,344
	424,561	446,603
Liquidity pool consists of		
Cash and cash equivalents, as above	424,561	446,603
Liquidity pool securities maturing after three months	754,603	564,708
	1,179,164	1,011,311

1 SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the Co-operative Credit Associations Act, which requires them to be in accordance with Canadian generally accepted accounting principles, except as otherwise specified by the Superintendent of Financial Institutions Canada (the "Superintendent"). No such specifications have been made by the Superintendent, and the significant accounting policies used in the preparation of these financial statements are summarized below.

Valuation

Assets are carried at cost or amortized cost. Accrued interest receivable is included with the corresponding principal balance.

Liquidity pool investments

The Society engages in the back-to-back sale and purchase of liquidity pool investments to enhance yield. Gains and losses on the disposition of investments are deferred and amortized to income over the lesser of the remaining term to maturity of the original investment or the replacement investment. In undertaking these transactions, there is no material difference in the term to maturity of the original and replacement investments.

The Society engages in the simultaneous purchase and sale of non-portfolio investments. The gain on these transactions is recognized as income at the time of settlement.

Losses resulting from the disposition of liquidity pool investments that are undertaken as a result of significant deterioration in the credit worthiness of the investee are recognized immediately.

Mutual fund seed capital

The Society provides seed capital to a related organization for the creation of mutual funds. These investments, included in the intermediation pool, are temporary, as policy requires withdrawal of the seed capital once the mutual funds achieve the required level of regulatory capital. Accordingly, these investments are carried at market value.

Equity accounting

Prior to the current year, the Society delivered banking and electronic switching services to its members. Commencing January 1, 2003, the Society facilitates the delivery of these services through Celero Solutions ("Celero"). Celero is an unincorporated venture that provides information technology services to the venture participants (owners), credit unions and other organizations. Pursuant to the venture agreement, the Society has a 25.3% ownership interest in Celero. The Society's share of Celero's 2003 operating income is based upon the business lines that it contributed to the venture and its ownership interest in operating results that are not directly related to the business lines.

Member credit unions that receive services from Celero are the beneficial owners of the Society's interest therein. Accordingly, the Society records an offsetting expense and an amount distributable to member credit unions equal to its share of Celero's operating income.

Conversely, should Celero incur a loss from operations, the Society recognizes its share of such loss. In this case, the Society records offsetting revenue and an amount recoverable from members to recognize Manitoba credit unions' beneficial ownership of Celero.

Depreciation and amortization

Depreciation and amortization are recorded annually by the Society at rates and on bases determined to charge the cost of capital assets over their estimated useful lives using the straight-line method as follows:

Technology and equipment	3 to 5 years
Furniture	5 to 10 years
Leasehold improvements	remaining term of the lease to a maximum of 5 years

Income taxes

The Society follows the liability method of accounting for income taxes. Under the liability method, future income taxes result from temporary differences between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. The future income tax asset is computed at the tax rates that are expected to apply when the assets and liabilities are ultimately settled.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from such estimates.

2 LIQUIDITY POOL

in thousands of dollars	2003	2002
Cash	1,437	12,259
Securities		
Governments	81,653	93,734
Banks and trust companies	687,049	472,374
Corporate	409,922	393,805
Credit Union Central of Canada	—	40,000
Non-specific provision for doubtful securities	(897)	(861)
	1,179,164	1,011,311

The Society serves as a source of liquidity for member credit unions. As such, all of the assets in the liquidity pool are readily convertible into cash.

3 INTERMEDIATION POOL

in thousands of dollars	2003	2002
Members' loans and investments		
Credit unions	64,899	64,970
Co-operatives	2,439	2,223
Shares		
Credit Union Central of Canada	3,279	3,385
Co-operatives	4,493	4,346
Mortgage and loan investments	1,048	1,086
Investment in Celero		
Loan receivable – at prime, no fixed terms of repayment	4,578	—
	80,736	76,010

Interest charges to Celero aggregated $152,000 (2002 – nil) for the year.

4 SERVICE RELATED ASSETS

in thousands of dollars	2003	2002
Technology and equipment, furniture and leasehold improvements	9,995	13,622
Accumulated depreciation and amortization	(5,611)	(6,575)
	4,384	7,047
Receivables	3,315	3,903
Prepaid expenses and inventories	461	1,002
Future income taxes (note 7)	289	323
	8,449	12,275

Celero purchased property and equipment from the Society on January 1, 2003 for $2,354,000, representing the Society's book carrying values.

Receivables include $444,000 (2002 – nil) due from Celero, and amounts recoverable from credit unions of $92,000 (2002 – $732,000) that have been prepaid on account of certain index-linked swap agreements with counter parties (note 11(a)).

Depreciation and amortization recorded during the year was $746,000 (2002 – $1,359,000).

5 SHARE CAPITAL

Authorized

Share capital consists of an unlimited number of Class I and II shares, to be issued at $5 each.

Membership

Every member of the Society is required to own a minimum of two Class I shares.

Pursuant to the Society's by-laws, Manitoba credit unions maintain investments in both classes of shares proportionate to their statutory (Class I) and excess (Class II) liquidity deposits held by the Society.

Rights and privileges

At the discretion of the Society's Directors, dividends may be declared and paid to either or both classes of shares. On any return of capital, the holders of Class II shares have a preferential claim on the Society's assets.

Issued and outstanding

in thousands of dollars	2003	2002
Class I		
Manitoba credit unions	28,888	25,700
Co-operatives	1,237	1,237
Class II		
Manitoba credit unions	35,328	39,500
	65,453	66,437

During the year, $3,188,000 (2002 – $1,700,000) of Class I shares and $228,000 (2002 – $7,200,000) of Class II shares were issued for cash consideration, and $4,400,000 (2002 – nil) of Class II shares were redeemed.

6 NET RECOVERIES FROM OPERATIONS

in thousands of dollars	2003	2002
Recoveries from members		
Computer services		
On-line banking system	—	10,503
Shared cash and direct payment systems	—	3,652
Clearing fees and other financial charges	4,890	3,808
Basic assessment	3,234	3,293
Fee for service	1,659	2,596
Liquidity management assessment	537	550
Printing and supplies – net of cost of $1,186 (2002 – $1,081)	349	342
The Credit Union Deposit Guarantee Corporation fees	202	180
	10,871	24,924
Operating expenses		
Personnel	6,395	12,036
National shared costs	1,023	2,877
Depreciation, amortization and leasing	877	1,826
Occupancy	867	868
Settlement costs	778	742
Professional services	482	496
Co-operative democracy	378	431
Hardware and software maintenance	357	1,786
Printing and supplies	308	776
General	302	576
Travel	196	381
Dues, grants and memberships	150	128
Telephone and computer telecommunications	146	1,476
Postage and delivery	118	128
Insurance and bonding	93	105
Financing costs	83	84
Write-off of share investment	—	50
Disaster avoidance/recovery costs	—	46
Net recovery from Celero	(1,526)	—
	11,027	24,812
Net (expense) recoveries from operations	(156)	112

The Society and Celero provide various services to each other. During the year, the Society's charges to Celero aggregated $1,738,000 (2002 – nil) and Celero's charges to the Society aggregated $212,000 (2002 – nil).

7 PROVISION FOR INCOME TAXES

The Society provides for income taxes at a rate of 18.1% (2002 – 18.1%) as determined below:

shown as %	2003	2002
Federal base rate	38.0	38.0
Federal abatement	(10.0)	(10 0)
Additional deduction for credit unions	(16.0)	(16.0)
Federal surtax	1.1	1.1
Net federal tax rate	13.1	13.1
Provincial tax rate	5.0	5.0
	18.1	18.1

The Society provides for income taxes using the above rates as follows:

in thousands of dollars	2003	2002
Income before income taxes	3,365	3,774
Non-taxable items		
Dividends on Co-operative shares	(268)	(197)
All other adjustments	174	170
Accounting income for tax purposes	3,271	3,747

in thousands of dollars	2003	2002
Expected provision for income taxes at statutory rates	592	678
Other adjustments – net	(18)	2
Provision for income taxes, including future taxes of $34 (2002 – $113)	574	680

The significant components of the future tax asset in the balance sheet are:

in thousands of dollars	2003	2002
Non-capital losses carried forward	286	159
Temporary differences between the net book value of certain expenditures for accounting purposes and tax purposes	(211)	(64)
Non-specific provision for doubtful securities	163	156
Provisions for expenditure not deductible for income tax purposes until paid	51	72
	289	323

8 DIRECTORS' EXPENSES

Directors received remuneration of $136,000 (2002 – $104,000) and expense reimbursement of $33,000 (2002 – $31,000).

9 COMMITMENTS

The Society leases office space under a lease arrangement which expires in 2005 and provides for an average annual payment of approximately $587,000.

The Society has entered into leasing arrangements for up to three years for technology and vehicle assets at an annual average cost of $33,000.

10 GUARANTEES

The Society has agreed to indemnify its current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the Society from making a reasonable estimate of the maximum potential amount it could be required to pay to counter parties. The Society maintains liability insurance coverage for directors and officers.

11 ASSET/LIABILITY MANAGEMENT

The Society has established policies and related reporting to manage its exposure to fluctuating interest rates (referred to as interest rate risk) and to movements in foreign exchange rates (referred to as foreign exchange risk). In the absence of these policies, the Society's earnings would be impacted, either positively or negatively, as interest and exchange rates change. Additionally, the Society is potentially exposed to financial loss resulting from the failure of a counter party to fully honour its financial or contractual obligations (referred to as credit risk).

The Society also acts as an intermediary for its members in the management of interest rate risk and foreign exchange risk.

a) Interest rate risk

The Society's major source of income is financial margin, the difference between interest earned on investments and member loans and interest paid on member deposits.

The objective of "interest rate sensitivity" management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to the term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates. The following summarized schedule shows the Society's sensitivity to interest rate changes:

in thousands of dollars

			SWAPS		
INTEREST REPRICING PERIOD	INTEREST SENSITIVE	NOT INTEREST SENSITIVE	RECEIVING	PAYING	NET ASSET/LIABILITY MIS-MATCH
0 to 6 months	(290,555)	(1,796)	462,267	(161,249)	8,667
6 to 12 months	64,285	(17,567)	15,000	(68,150)	(6,432)
1 to 2 years	95,116	(16,589)	13,700	(94,032)	(1,805)
2 to 3 years	24,104	(16,213)	—	(8,351)	(460)
3 to 4 years	134,063	(8,878)	—	(127,114)	(1,929)
4 to 5 years	42,392	(8,362)	—	(32,071)	1,959
	69,405	(69,405)	490,967	(490,967)	—

The average interest rate for interest-bearing assets is 3.97% and for interest-bearing liabilities is 3.68%.

A significant amount of investments and deposits can be sold or redeemed before maturity, but no adjustment has been made for sales or redemptions that may occur. Amounts that are not interest sensitive have been categorized in repricing periods that correspond to the Society's asset/liability deployment policies and investment strategies.

A positive asset/liability mis-match for a given interest repricing period (period gap) indicates that a rise in interest rates would increase the Society's financial margin effective with that period while a fall in interest rates would decrease the financial margin. If the period gap for a given repricing period is negative, then an increase or decrease would have the opposite effect from a positive gap. The Society has established a policy to limit the mis-match in each period to prevent significant financial margin fluctuations.

The Society enters into interest rate swap agreements (swaps) for the purpose of managing interest rate risk, the notional amounts of which are reflected in the table above. A swap is a contractual agreement between the Society and a counter party involving the exchange of fixed rate and floating rate payments structured in a manner to reduce the extent of the Society's interest rate risk to a level which management believes is reasonable. The Society does not enter into swaps for speculative purposes.

Additionally, the Society, in its role as a financial intermediary, has entered into interest rate swap agreements, and index-linked swap agreements, on behalf of its member credit unions. The credit risk associated with the interest rate agreements is the responsibility of the credit unions. The credit risk associated with the index-linked agreements, which aggregate $7,946,000, is the responsibility of the Society.

b) Foreign exchange risk

The Society has assets and liabilities denominated in U.S. dollars. The Society has established a policy to limit its exposure to changes in the U.S. exchange rate to prevent significant financial margin fluctuations.

The Society enters into foreign exchange forward rate agreements for the purpose of ensuring that its policy limitation is not exceeded and to provide a financial intermediary role for credit unions. A foreign exchange forward rate agreement is a contractual arrangement between the Society and a counter party involving the commitment of a purchase or sale of U.S. dollar funds to settle on a future date at a predetermined exchange rate. The Society does not enter into forward rate agreements for speculative purposes.

As at December 31, 2003, the Society has entered into foreign exchange forward rate agreements to buy U.S. dollars aggregating U.S. $39,059,000 and to sell U.S. dollars aggregating U.S. $25,260,000. The credit risk associated with these agreements is the responsibility of the Society.

c) Credit risk

The Society's exposure to credit risk, represented by the cost to replace swap and foreign exchange forward rate agreements in the event of the failure of a counter party, is $627,000 as at December 31, 2003. The counter party for all such agreements is restricted to the major chartered banks and member credit unions, and therefore management considers the Society's credit risk to be negligible.

12 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The following table presents the fair values of all financial assets and liabilities of the Society. Differences between book value and fair value are caused by differences between the interest rate obtained at the time of the original investment or deposit and the current rate for the same product. Investments and deposits that are priced with variable rates have a fair value equal to book value, as they are priced at current interest rates.

While fair value amounts are designed to represent estimates of the amounts at which assets and liabilities could be exchanged in current transactions between willing parties, the Society normally holds all of its fixed term investments and deposits to their maturity date. Consequently, the fair values presented are estimates derived by taking into account changes in the market interest rates, and may not be indicative of net realizable value.

The excess of the fair value of assets over book values represents an unrealized gain to the Society. The excess of the fair value of liabilities and off balance sheet financial instruments over book values represents an unrealized loss to the Society.

in thousands of dollars	BOOK VALUE	FAIR VALUE	FAIR VALUE GREATER THAN BOOK VALUE
Assets			
Liquidity pool	1,179,164	1,199,053	19,889
Intermediation pool	80,736	81,266	530
Liabilities			
Member deposits	1,194,687	1,204,708	10,021
Off balance sheet financial instruments			
Net swap agreements	—	9,710	9,710

13 COMPARATIVE FIGURES

Certain of the prior year's figures have been restated for comparative purposes.

The strength of the Manitoba credit union system is *people*

Please join us in congratulating these individuals who have worked and volunteered to make their credit unions and the system what they are today.

In 2003, Assiniboine, Civic, North Winnipeg and Tiger Hills credit unions celebrated their 60th anniversaries.

Celebrating 50 years was Swan Valley Credit Union.

25 to 29 Years

Clarence Abrams General Manager, Oak Bank Credit Union
John Baart Computing Services Analyst, Celero Solutions
Ross Ballantine CEO, Community Credit Union
Dan Biles Manager, System Credit, CUCM
Mark Bryce Senior Credit Officer, Westoba Credit Union
Larry Cox Internal Auditor, Westoba Credit Union
Shirl Driedger Loans Manager, Community Credit Union
Deb Durham Branch Manager, Cypress River Credit Union
Rosemary Empson Office Manager, Community Credit Union
Fay Erickson Loans Officer II, Westoba Credit Union
Diane Harris General Manager, Flin Flon Credit Union
Clare Hoggins Loans Officer III, Westoba Credit Union
Robert MacKalski Director, Crocus Credit Union
Josie McKenzie Corporate Administartion Assistant, Celero Solutions
Hugh O'Hare CEO, Buffalo Credit Union
Joanne Prosolowski Senior Member Service Rep., Transcona Credit Union
Donald Reid Director, Oak Bank Credit Union
Dee Dee St. Godard Loans Officer, Altona Credit Union
Alice Strong-Penner Loan Officer, Dealer Finance, Assiniboine Credit Union
Brent Thomas CEO, Transcona Credit Union
Gloria Way Loans Officer III, Westoba Credit Union

MANITOBA

30 to 34 Years

Norm Baldwin Director, Starbuck Credit Union
Nick Enns Branch Manager, Crowtown Credit Union
Helen Finnie Clearing Clerk, Portage Credit Union
Paul Gair Chief Operating Officer, Civic Credit Union
Irene Gonzalez Financial Services Officer, Civic Credit Union
Ray Howell Financial Services Officer II, Westoba Credit Union
Murray Lapka Manager, Fetford, Portage Credit Union
Eldon Neilson Internal Auditor, Assiniboine Credit Union
Brenda Palmer Head Clerk II, CUCM
Ralph Rasmussen Director, Starbuck Credit Union
Elaine Schaan Member Service Representative, Portage Credit Union
Marge Shuwera Office Manager, Community Credit Union

35 to 39 Years

Sharron Amy Branch Manager, Assiniboine Credit Union, Oak Bluff Branch
Murray Krushel Regional Mgr., Rm Operations, Assiniboine Credit Union
Andrew Sellen Director, Oak Bank Credit Union

Credit Union Central *of* Manitoba

Incorporated in 1950 as the Co-operative Credit Society of Manitoba, Winnipeg, Manitoba by Statute of the Province of Manitoba, Canada.

TRADE NAME
Credit Union Central of Manitoba
Registered 1977

CREDIT SOCIETY/AGENT BANK
Credit Union Central of Canada
Bank of Nova Scotia

EXTERNAL AUDITORS
PricewaterhouseCoopers LLP

SOLICITORS
Pitblado

CONSULTING ECONOMISTS
Dr. Norm Cameron
Dr. John Loxley
Dr. Brian Oleson

Box 9900
215 Garry Street
Winnipeg, Manitoba
R3C 3E2
(204) 985-4700
www.creditunion.mb.ca